

**Notice of Intent to Adopt a Negative Declaration for  
Amendments to the California Department of Food and Agriculture Milk Stabilization  
Plan**

The California Department of Food and Agriculture (CDFA) has prepared and intends to adopt a Negative Declaration for proposed Amendments to the California Department of Food and Agriculture Milk Stabilization Plan in compliance with the California Environmental Quality Act (CEQA) and State CEQA Guidelines. CDFA is the lead agency for the project under CEQA.

**Description of the Proposed Project:**

The Department has proposed to change the formulas for establishing the regulated minimum prices that California milk processors must pay to dairy farmers in California and thereby **decrease** the amount of money that milk processors are required to pay producers in this State. The costs of manufacturing finished dairy products such as cheese, skim whey powder, and non-fat dried milk ("NFDM" or "powder") are referred to as "make allowances." The reduced producer revenue will occur because the proposal will increase the allocation in the formulae for costs of manufacturing finished dairy products, such as cheese, skim whey powder, and NFDM. The proposed project is to increase the make allowance for these three products.

**Project Location:**

California milk production occurs in four geographic areas (see map in Initial Study):

- > Southern California
- > South Valley (Southern San Joaquin Valley)
- > North Valley (Northern San Joaquin Valley and Sacramento Valley)
- > North Coast

**Public Review Period:**

The Negative Declaration and Initial Study are being circulated for public review and comment as required by the State CEQA Guidelines for a period of 30 days starting August 21, 2006 and ending September 20, 2006. Written comments on either the adequacy of the environmental information and/or the merits of the project must be submitted no later than September 20, 2006 to the following address:

Mr. Jim Rains  
California Department of Food and Agriculture  
1220 N, Street Room A-316  
Sacramento, CA 95814  
(916) 651-9371

Copies of the Negative Declaration and Initial Study may be obtained at the address and/or contact shown above and are also available for review at this address Monday through Friday, from 8:30 am to 4:00 pm. The documents can also be accessed at the following web site:  
[http://www.cdfa.ca.gov/dairy/dairy\\_hear\\_finalresults\\_class4a4b\\_jul\\_21\\_06.html](http://www.cdfa.ca.gov/dairy/dairy_hear_finalresults_class4a4b_jul_21_06.html)

No public meetings and/or workshops are planned at this time for this project. Appropriate public notice will be provided if any are subsequently scheduled during the public review period.

CDFA is not aware of the presence of any of the dairy facilities which may be affected by the proposed project on lists of hazardous waste facilities, land designated as hazardous waste property and hazardous waste disposal sites.

## **DRAFT NEGATIVE DECLARATION**

### **Project:**

Amendments to the California Department of Food and Agriculture Milk Stabilization Plan

### **Lead Agency:**

California Department of Food and Agriculture (CDFA)

### **Project Description:**

CDFA has proposed to change the formulas for establishing the regulated minimum prices that California milk processors must pay to dairy farmers in California and thereby **decrease** the amount of money that milk processors are required to pay producers in this State. The costs of manufacturing finished dairy products such as cheese, skim whey powder, and non-fat dried milk ("NFD" or "powder") are referred to as "make allowances." The reduced producer revenue will occur because the proposal will increase the allocation in the formulae for costs of manufacturing finished dairy products, such as cheese, skim whey powder, and NFD. The proposed project is to increase the make allowance for these three products.

### **Project Location:**

California milk production occurs in four geographic areas (see map in Initial Study):

- > Southern California
- > South Valley (Southern San Joaquin Valley)
- > North Valley (Northern San Joaquin Valley and Sacramento Valley)
- > North Coast

### **Discussion of Potential Environmental Impacts**

Discussion of potential impacts is included in the Initial Study and Environmental Checklist.

### **Finding of No Significant Effect on the Environment**

Pursuant to the California Environmental Quality Act (CEQA) of 1970, as amended, an Initial Study has been conducted to identify any significant environmental effects of the project and to determine whether an Environmental Impact Report or Negative Declaration should be prepared. Copies of the Initial Study and Environmental Checklist are attached. Further information can be obtained by contacting the California Department of Food and Agriculture at 1220 N Street, Room A-308, Sacramento, California, 95814 or phone (916) 651-9371.

Negative Declaration

Page 2

Based on the attached Initial Study and Environmental Checklist it is determined that there is no substantial evidence that the Proposed Project may have a significant effect on the environment.

Based on the findings that no significant impacts were identified for the project, it is concluded that a Negative Declaration is the appropriate CEQA action.

I hereby adopt this negative declaration and direct the filing of a Notice of Determination:

APPROVED: \_\_\_\_\_

A. J. Yates

California Department of Food and Agriculture

Date: \_\_\_\_\_

AMENDMENTS TO THE  
CALIFORNIA DEPARTMENT  
OF FOOD AND AGRICULTURE  
MILK STABLIZATION PLAN

CEQA INITIAL STUDY

AUGUST 2006



CALIFORNIA DEPARTMENT OF  
FOOD AND AGRICULTURE

## EXECUTIVE SUMMARY

The Department has proposed to change the formulas for establishing the regulated minimum prices that California milk processors must pay to dairy farmers in California and thereby **decrease** the amount of money that milk processors are required to pay producers in this State. The costs of manufacturing finished dairy products such as cheese, skim whey powder, and non-fat dried milk ("NFDM" or "powder") are referred to as "make allowances." The reduced producer revenue will occur because the proposal will increase the allocation in the formulae for costs of manufacturing finished dairy products, such as cheese, skim whey powder, and NFDM. The proposed project is to increase the make allowance for these three products.

Over the last three years, this State's producer income has aggregated to between \$4.0 and \$5.2 billion per year from sales to dairy processors. It is estimated that the proposed increase could transfer an estimated additional \$80 million per year, of that \$4.0 to \$5.2 billion dollars, from the State's dairy farmers to the State's cheese and powder processors. The transfer is premised upon increases in the processors' estimated efficient costs of production. The economic signals which the proposal will send to the market are mixed, and producers or processors individually or as a whole might increase or decrease their operations as a result of these signals. The subsequent analysis shows that any possible linkages between this decision and adverse environmental impacts due to enhancements in production are indirect, tenuous and speculative. There is nothing in the decision that requires any action.

Furthermore, if a producer or processor elects to undertake some action to exploit this proposal by increasing their capacity or some other physical activity, the producer or processor would have to obtain various permits from environmental regulatory agencies. The process to acquire those permits will include environmental review. The Department cannot predict whether or not any physical activity will result from the proposal, much less predict the potential environmental consequences of such potential activities. Consequently, the Department has determined that a negative declaration satisfies environmental review required by CEQA.

## PROPOSED PROJECT DESCRIPTION

The Department has proposed to change the formulae for establishing the regulated minimum prices milk processors in California must pay to dairy farmers in California and thereby increase the amount of money that milk producers in this State pay for processors' costs of manufacturing finished dairy products such as cheese, skim whey powder, and NFDM. In short, the proposal will decrease producer income by decreasing processor costs to purchase milk from producers.

The proposal has two factors: the first is to increase the "make allowance" for cheese by 3.3 (4%) cents per hundredweight (cwt.) for all California milk produced. (Nationally, it is industry practice to market milk in 100-pound units. One cwt. equals 11.6 gallons of milk). For skim whey powder, a make allowance increase of 17.8 (33%) cents per cwt. is proposed, and for NFDM powder, the increase is 2.4 (5%) cents per cwt. These equate to per-pound changes from \$0.1710 to \$0.1780 for cheese, from \$0.2000 to \$0.2670 for skim whey powder, and from \$0.152

to \$0.160 for NFDM powder. The Department did not change the level of the butter make allowance.

The second factor in the proposal is to change the “f.o.b. adjusters.” The f.o.b. adjusters operate in a similar manner to the make allowance factors in that revenue pivots from processors to producers (or vice versa). It is proposed to modify the f.o.b. adjusters for Class 4a and 4b formulas. The result is a producer price level increase of 3.8 cents per cwt. This 3.8 cent increase has the effect of partially offsetting the make allowance adjustments, which lowers producer prices.

Because of market fluctuations, it is not possible to project with certainty the ultimate, total economic effect of the proposed changes upon the economics of the State’s dairy industry. Prior to the July heat wave, the total California gross producer revenue was approximately \$370 million per month, or approximately \$4.3 billion on an annual basis. Using the proposed changes to assume an average price received by producers for California in April 2006, the proposal would amount to a 1.8 percent reduction in annual gross producer revenue.

#### PURPOSE OF THIS DOCUMENT

This document is being prepared to ascertain what, if any, potential direct or reasonably foreseeable indirect change in the physical environment the proposed activity will cause, and to ascertain whether and/or what level of review is required by the California Environmental Quality Act.

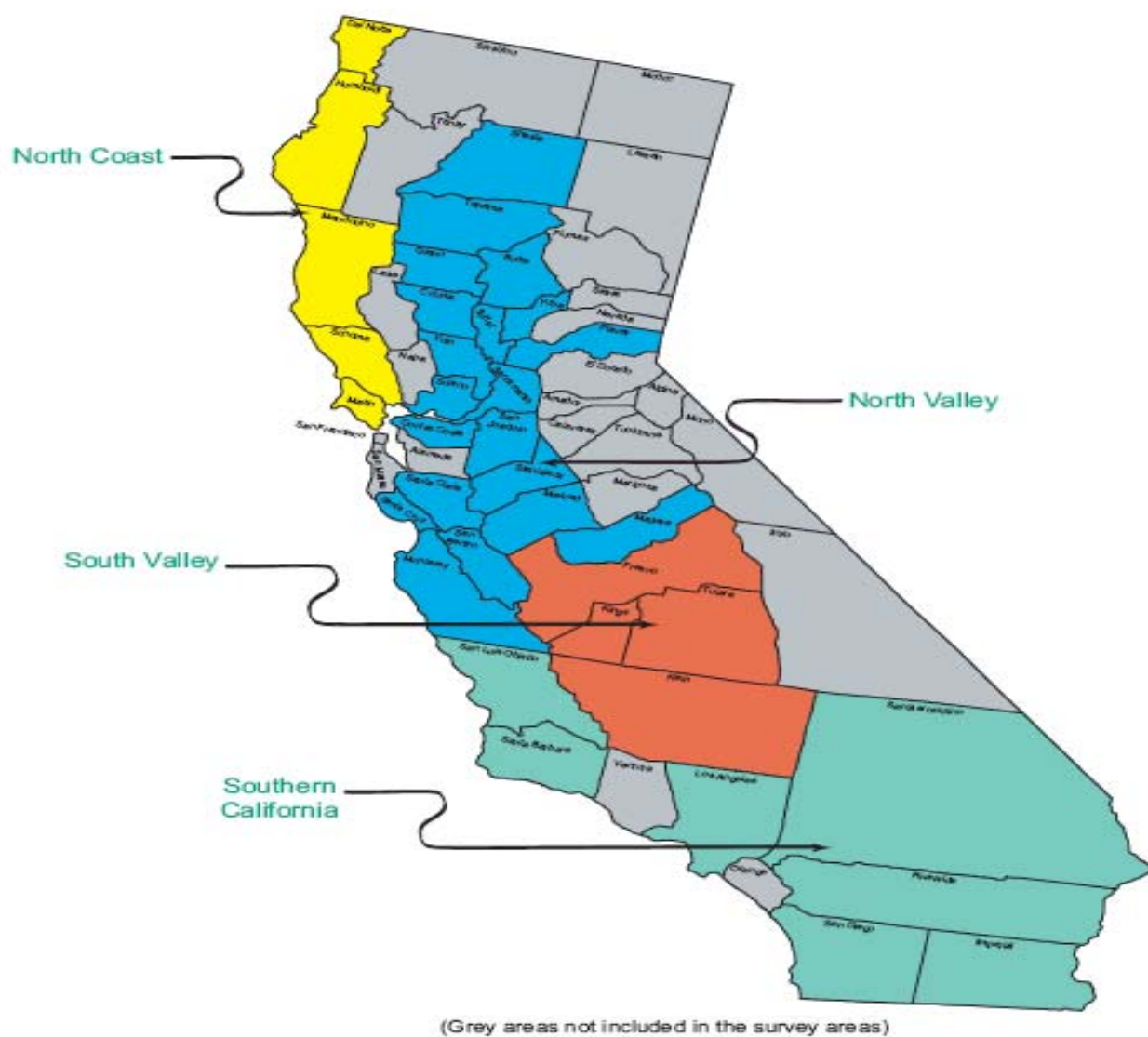
As is explained herein, this document demonstrates that there is no substantial evidence in the record to support a fair argument that the proposed activity will result in any adverse physical impacts to the environment. Therefore, a Negative Declaration satisfies CEQA’s requirements.

#### PROJECT LOCATION

California milk production occurs in four geographic areas (see attached map):

- > Southern California
- > South Valley (Southern San Joaquin Valley)
- > North Valley (Northern San Joaquin Valley and Sacramento Valley)
- > North Coast

# Geographic Regions of Milk Production in California, 2006



Source of graphic is--  
[http://www.cdfa.ca.gov/dairy/dairy\\_annualpubs.html#ProductionCostMap](http://www.cdfa.ca.gov/dairy/dairy_annualpubs.html#ProductionCostMap)

## ENVIRONMENTAL SETTING

The areas which would be affected by the proposed project are dairies and manufactured milk processing facilities. These are generally located in rural areas surrounded by attendant feed production fields. Typically there would be substantial open space buffers between the facilities and urban areas.

## CONSISTENCY WITH LAND USE CONTROLS

It is assumed that the affected dairies and milk production facilities are in locations consistent with existing local general plans, zoning and other applicable land use controls. CDFA has no jurisdiction in land use regulations.

## INTRODUCTION

Since the 1930s, the federal and state governments have implemented various programs to stabilize agricultural industries by regulating the marketing of agricultural products; these regulations include control of prices which must be paid to producers (farmers) and a variety of other marketing mechanisms.

In an effort to stabilize the market for milk and products made from milk and ensure a safe, reliable supply of milk at reasonable prices to consumers, the California Legislature has enabled dairy farmers or “producers” to authorize the California Department of Food and Agriculture (“Department” or “CDFA”) to establish plans (“stabilization plans”) to control the minimum prices that dairy processors (including milk bottlers, ice cream and cheese makers, and other dairy product processors) must pay to milk producers. The Legislature has similarly enabled establishment of a plan to aggregate the revenue from all milk sold by producers in this State into a shared fund referred to as “the pool”, which is then divided amongst producers at one of two prices (quota and overbase) based upon the producers’ historic and projected share of the fluid (bottled or drinking) milk market.

The State’s milk producers elected by industry vote to establish the milk stabilization and pool plans. According to the statutes enabling the stabilization plan, the Department must set the minimum prices that processors must pay for the milk they utilize to make their finished product.

The minimum prices are to be based upon certain codified criteria. The criteria are economic and stated in general terms; the actual factors, variables, and policy are reflected in the State’s milk stabilization plans. Therefore, while the proposed activity is stated in terms of the “make allowance,” that allowance and other factors impact the regulated minimum prices. As is evident from the various proposals considered in reaching the proposed changes, using cheese and whey as an example, factors include but are not limited to: the value of a representative whey product, the amount of whey that can be made in the cheese-making process, the amount of cheese that can be made from milk, how to value the milk made into cheese, fuel and transportation costs, and the impact of federal programs and national prices. However, since the proposals are reflected in an overall change as a result of the make allowance adjustments, the analysis will

focus upon the make allowance as a whole, instead of the various factors discussed in the Department's Panel Report and reflected in the proposed Decision and Order.

## STATUTORY AUTHORITY CONTROLLING THE MILK PRICING SYSTEM

The statutes include the criteria for establishing these minimum prices; those criteria are codified in the following sections of the Food and Agricultural Code:

**62062.** Each stabilization and marketing plan shall contain provisions whereby the director establishes minimum prices to be paid by handlers to producers for market milk in the various classes. The director shall establish the prices by designating them in the plan, or by adopting methods or formulas in the plan whereby the prices can be determined, or any combination of the foregoing. If the director directly designates prices in the plan, the prices shall be in reasonable and sound economic relationship with the national value of manufactured milk products. If the director adopts methods or formulas in the plan for designation of prices, the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products. In establishing the prices, the director shall take into consideration any relevant economic factors, including, but not limited to, the following:

- (a) The reasonableness and economic soundness of market milk prices for all classes, giving consideration to the combined income from those class prices, in relation to the cost of producing and marketing market milk for all purposes, including manufacturing purposes. In determining the costs, the director shall consider the cost of management and a reasonable return on necessary capital investment.
- (b) That prices established pursuant to this section shall insure an adequate and continuous supply, in relation to demand, of pure, fresh, wholesome market milk for all purposes, including manufacturing purposes, at prices to consumers which, when considered with relevant economic criteria, are fair and reasonable.
- (c) That prices, including the prices of components of milk, established by the director for the various classes of market milk bear a reasonable and sound economic relationship to each other. In establishing the prices, the director shall also take into consideration all the purposes, policies, and standards contained in Sections 61801, 61802, 61805, 61806, 61807, 62076, and 62077.

**61801.** The production of market milk is hereby declared to be a business affected with a public interest. The provisions of this chapter are enacted in the exercise of the police powers of this state for the purpose of protecting the health and welfare of the people of this state.

**61802.** The Legislature hereby declares all of the following:

- (a) Market milk is a necessary article of food for human consumption.
- (b) The production and maintenance of an adequate supply of healthful market milk of proper chemical and physical content, free from contamination, is vital to the public health and welfare, and the production, transportation, processing, and storage of market milk in this state is an industry affecting the public health.
- (c) Because of the perishable quality of milk, the nature of milk production, the varying seasonal production and demand factors, and other economic factors affecting the milk industry, the potential exists for economic disruption, in the absence of regulation, in the production, marketing, and sale of market milk which may constitute a menace to the health and welfare of the inhabitants of this state and may tend to undermine sanitary regulations and standards of content and purity, however effectually the sanitary regulations may be enforced.
- (d) Health regulations alone are insufficient to prevent economic disturbances in the production of milk which may disrupt the future supply of market milk and to safeguard the consuming public from future inadequacy of a supply of this necessary commodity.

(e) It is the policy of this state to promote, foster, and encourage the intelligent production and orderly marketing of commodities necessary to its citizens, including market milk, and to eliminate economic waste, destructive trade practices, and improper accounting for market milk purchased from producers.

(f) It is recognized by the Legislature that the economic factors concerning the production, marketing, and sale of market milk in California may be affected by the national market for milk for manufacturing purposes.

(g) It is recognized by the Legislature that in recent years the supply of manufacturing milk in California, as defined in Section 32509, has consistently declined and continues to decline, and that market milk has virtually supplanted manufacturing milk for manufacturing purposes in this state, and that it is therefore necessary to conform the pricing standards governing minimum producer prices for market milk established under this chapter to current economic conditions.

(h) It is recognized by the Legislature that the levels of retail prices of milk and milk products paid by consumers are affected by a large number of economic and other factors apart from minimum producer prices for market milk established under this chapter, many of which factors are not within the power of the director to regulate or control, particularly since the Legislature repealed provisions concerning establishment of minimum wholesale and retail prices. It is further recognized by the Legislature that, in order to accomplish the purposes of this chapter and to promote the public health and welfare, it is essential to establish minimum producer prices at fair and reasonable levels so as to generate reasonable producer incomes that will promote the intelligent and orderly marketing of market milk in the various classes, and that minimum producer prices established under this chapter should not be unreasonably depressed because other factors have affected the levels of retail prices paid by consumers.

**61805.** The purposes of this chapter are to do all of the following:

(a) Provide funds for administration and enforcement of this chapter, by assessments to be paid by producers and handlers of market milk in the manner prescribed in this chapter.

(b) Authorize and enable the director to prescribe marketing areas and to determine minimum prices to be paid to producers by handlers for market milk which are necessary due to varying factors of costs of production, health regulations, transportation, and other factors in the marketing areas of this state. In determining minimum prices to be paid producers by handlers, the director shall endeavor under like conditions to achieve uniformity of cost to handlers for market milk within any marketing area. However, no minimum prices established or determined under this chapter shall be invalid because uniformity of cost to handlers for market milk in any marketing area is not achieved as a result of the minimum producer prices so established or determined.

(c) Authorize and enable the director to formulate stabilization and marketing plans, subject to the limitations prescribed in this chapter with respect to the contents of the stabilization and marketing plans, and to declare the plans in effect for any marketing area.

(d) Enable the dairy industry, with the aid of the state, to develop and maintain satisfactory marketing conditions, bring about and maintain a reasonable amount of stability and prosperity in the production of market milk, and provide means for carrying on essential educational activities.

**61806.** It is the intent of the Legislature that the powers conferred in this chapter shall be liberally construed.

**61807.** Nothing in this chapter permits or authorizes the development of conditions of monopoly in the production of market milk. In the establishment of the terms and conditions under which market milk shall be purchased from producers, the terms and conditions are those which will, in the several localities and markets of the state, and under the varying conditions of production, insure an adequate and continuous supply of pure, fresh, wholesome market milk to consumers of the market milk.

**62076.** In establishing prices to be paid by handlers to producers for class 2, class 3, class 4a, or class 4b market milk, the director shall take into consideration any relevant economic factors, including, but not limited to, the following:

- (a) The relative market value of the various products yielded from such market milk.
- (b) The market price of other milk which may be used for the same purposes that are set forth in such respective classes.
- (c) The value of milk used for manufacturing purposes giving consideration to any relevant factors including, but not limited to, product prices, product yields, and manufacturing costs of class 4a or class 4b.

**62077.** A handler shall not pay any producer less than the applicable price established for the usage to which the market milk, purchased from him is applied pursuant to accounting procedures established by the director. If the market milk is not applied to any purpose set forth in Article 5 (commencing with Section 61931), then a handler shall not pay any producer less than the lower of the prices established under the applicable stabilization and marketing plan for class 4a and class 4b usage.

## INTRODUCTION TO THE MILK PRICING SYSTEM

The foregoing statutes provide that the milk stabilization plans and minimum prices established therein must be based upon codified economic criteria. The criteria mandate the Department consider the reasonableness and economic soundness of milk prices for all products, giving consideration to:

- the combined income from those products, in relation to cost of production and marketing for all purposes including manufacturing; and
- whether the prices will insure an adequate and continuous supply, in relation to demand, of pure, fresh, wholesome market milk for all purposes, including manufacturing purposes, and
- that the milk will be available at prices to consumers which, when considered with relevant economic criteria, are fair and reasonable; and
- whether prices, including the prices of components of milk, or the various purposes bear a reasonable and sound economic relationship to each other; and
- whether any amendments to the milk pricing formulae would be in accord with all the purposes, policies, and standards contained in the above quoted sections.

Although the Department declares the regulated minimum prices for each month, the prices are based upon set formulae for milk used to make each type of dairy product. Therefore, the activity under consideration is not the actual setting of prices, but instead regards proposed changes to the variables in the formulae which will result in the monthly-regulated minimum prices.

Moreover, there is no single price for the milk sold in the State. Separate prices are established based upon the products to be made from the raw milk provided by producers. Milk used for higher-value finished products, such as milk for bottling (fluid milk), has a higher minimum price. The various prices and associated uses are called “classes” of milk. Consequently, milk

used for bottling is Class 1 milk and usually has the highest value and highest minimum price. Milk used for other purposes has different minimum prices, their value depending upon the national market conditions for manufactured dairy products. Class 2 milk is milk used for products such as yogurt, cream, half & half, sour cream, and cottage cheese. Class 3 milk is milk used to make frozen dairy products such as ice cream. Class 4 is divided into two sub-classes: Class 4a is designated for milk used to make butter and its corresponding product, NFDM powder; Class 4b is milk used to make cheese and whey products.

As is apparent, the criteria include a wide number of variables which are incorporated into the milk stabilization plans and weighed by the Department. However, the analysis begins with the national manufactured dairy commodity market.

California is not an island wholly unto itself in the milk and dairy products industry. Raw milk and finished products are transported interstate and internationally. Because of this transportability, the national market reflected on the Chicago Mercantile Exchange ("CME") provides the foundation for this State's minimum price formulas. Our system seeks to establish minimum California farmgate milk prices at a commensurate value that manufactured dairy products would fetch at the CME. To ascertain this value, the Department begins with the CME prices, then deducts the processors' reasonable, efficient cost to transform the raw milk into the finished products (the make allowance), and then deducts the reasonable assumed costs to transport the products to the national market (the "f.o.b adjuster").

The variable criteria at issue herein is the processors' costs to transform the raw milk received from producers into the finished product sold to consumers. This variable is referred to as the "make allowance" or the "manufacturing cost allowance ("MCA"). The proposal under consideration is to increase the "make allowances" for cheese, skim whey powder, and NFDM powder by the following values (impact to the entire milk [revenue] pool) for the three products; cheese - 3.3 (4%) cents per cwt. for all California milk produced; skim whey powder - by 17.8 (33%) cents per cwt., and NFDM powder - by 2.4 (5%) cents per cwt. No change was recommended to the butter make allowance. On a per-pound basis, these values translate into an increase in the "make allowance" for cheese from \$0.1710 to \$0.1780 per pound, for skim whey powder from \$0.2000 to \$0.2670 per pound, and for NFDM powder from \$0.152 to \$0.160 per pound. The proposal also includes a reduction in the "f.o.b. price adjuster," which would increase the minimum prices, mitigating the reduction in producer revenue resulting from the proposed changes in the make allowances.

In ascertaining the appropriate formulae and the resulting prices, the Department considers the costs for a reasonably efficient processor. For each of the manufactured products, the Department has generally adapted make allowance levels that will cover the costs of a sufficient share of the State's production (with the exception of some higher-cost processors). The prices are not intended to encourage inefficient milk processing, nor are they intended to encourage inefficient production or production in excess of market needs. It is intended that by considering the market efficiencies, production and prices will remain in balance to ensure an adequate supply of milk at prices which neither encourage nor discourage shipment of raw milk to or from California. As noted herein, retaining this balance results in numerous and sometimes often

adjustments in the formulae.

In establishing the minimum prices and weighing the variables, the Department uses past plant survey data gathered by staff auditors, public hearing evidence and testimony, and reasonable projections accepted by the Department's economists. However, the Department can and must adjust the price formulae to reflect current conditions and current projections. Consequently, regulated minimum price formulae are set only until the Department resets them, which can be at intervals of months or years, through a public hearing process held by the Department.

Over the 2001-2006 time period the Department has received 30 petitions to change the pricing formulae and granted 16 hearings. These hearings have resulted in nine changes to the formulae, in addition to the current proposal. There is another hearing scheduled for December of this year.

Moreover, the effect of milk revenue pooling must be weighed when considering the likelihood that any change in minimum prices or the variables underlying them, such as the make allowance, will impact raw milk production. As referenced above, except for any premiums that processors pay to producers, the revenue derived from the minimum prices is pooled and then shared among producers at one of two pool prices. Instead of actually receiving the minimum prices, producers receive the pool price levels. The pool prices are established by the aggregated revenue and total milk produced and sold in this State. The two pool prices are an **overbase** price and a **quota** price. The quota price is set by statute at a level that is \$1.70 per cwt. higher than the overbase price. Producers receive the quota price based upon the amount of milk that they historically or are imputed to sell to the higher value use as bottled milk. It is axiomatic that producers who sell more milk at quota prices receive more revenue than producers who sell milk at the overbase price. As a result of the minimum pricing and pooling plans, except for any premiums received outside of the regulated market, producers are indifferent as to the use of milk they sell to processors. As a result, the correlation between minimum prices and producer profits and the assumable incentive to increase production is even less direct for dairy producers than is the correlation between farm-level minimum prices and processors' production.

The activity considered as a proposed project pursuant to this document is the increase in make allowance level for three of four manufactured products. Over the past three years, producer gross income (the revenue pool or milk "pool") has been between \$4.0 and \$5.2 billion per year due to fluctuating market conditions and gradually expanding production. This is revenue received from dairy processors. As explained above, the proposed make allowance increase could transfer an estimated additional \$80 million per year, of that \$4.0 to \$5.2 billion, from the State's dairy farmers to the State's cheese and butter/powder processors to pay the processors' estimated efficient costs of production. It is important to note that the proposal does not raise or lower the total worth of California milk as determined by the CME market factors. Rather, the proposal only adjusts how the same total revenue is allocated between California processors and producers.

Evaluation of the possibility to foresee potential impacts resulting from this regulatory system

must include the understanding that the Department only sends economic signals to the dairy markets, in an attempt to encourage balance and stability; the Department does not and cannot in reality, or pursuant to its legal authority, control the market. The market is controlled by the aggregate actions of individual producers and processors who act and react to the market and signals in accordance with their own circumstances. Moreover, because of market fluidity, the short-term effects of conditions, including prices, might have opposite and much greater effects in the long term.

Although the Department must consider the codified economic criteria in setting the minimum prices, the processors' actual costs and use of their revenue is not regulated. Consequently, processors that can make manufactured products for less than the Department-established make allowance levels or variables can realize a greater margin. In addition, although the minimum prices include a "reasonable return on investment," this does not mean that processors will appreciate any profits. Processors are free to operate their business according to their own plans; their revenue can be distributed as they see fit. If a processor has a positive margin, funds can be re-invested in additional processing capacity or utilized in whatever way fits the processor's overall business plans, projections, and goals. It can be assumed that regardless of currently established minimum prices, processors and producers will make their business operations decisions based upon their expectations and goals. Although the pricing formulae are set in the plans, actual prices change monthly; therefore, regardless of current minimum prices or any variable contributing to the minimum prices, processors and producers will conduct their operations in accord with their plans, which might be either long- or short-term, and the degree of risk that they are willing to bear.

Consideration of economic and environmental effects and projecting potential impacts also require recognition that the prices established in the stabilization plans are only minimum prices. Processors are completely free to, and often do, pay producers higher prices or premiums to ensure delivery of milk under the processors' specified conditions. It is the potential for all these individual decisions which makes any projections inherently speculative.

## ECONOMIC ANALYSIS

### ECONOMIC IMPACTS WILL RESULT FROM A MULTITUDE OF FACTORS AND THEREFORE ARE INHERENTLY UNCERTAIN AND SPECULATIVE

#### 1. CALIFORNIA'S DAIRY INDUSTRY IS IMPACTED BY OTHER STATES' DAIRY INDUSTRIES

As explained in the Introductory Sections, the national markets are a fundamental element of this State milk and dairy pricing system, but the Department's regulation of milk marketing is Constitutionally limited to the borders of this State. The Department simply cannot regulate interstate commerce; only the federal government has that authority. However, because of the impact of national market conditions, actions by the federal government and other states will affect California's market.

Although the California Department of Food and Agriculture regulates milk and dairy product marketing in this State, the regulation or lack of regulation of milk and dairy marketing in other states is within the authority of the other states and the federal government. Most states have elected to operate within the federal milk regulatory system administered by the U. S. Department of Agriculture, which is similar in operation to the California system in that it sets minimum prices based upon a variety of factors including the use of make allowances. A few states operate their own regulatory systems similar to California's, such as the State of Nevada. Moreover, processors operating within areas subject to the federal system have some flexibility to partially opt out of regulations regarding payment to producers for milk converted into manufactured products. Milk that is produced in state-regulated areas but is marketed into other jurisdiction can avoid some price regulation depending on certain conditions.

Unlike the days when milk and dairy products were first subject to market regulation, milk and dairy processing are no longer industries of purely local concern. Today, milk and dairy products are marketed throughout the country; California is not unaffected by the rest of the country. If this State were to set prices too high, milk and dairy product imports would likely increase to capture additional market share, reducing California's share of business. If California's regulated prices are too low, this State's producers and/or processors could not cover their cost of production and would eventually cease to operate.

To succeed in the national and increasingly international market, California's producers and processors must be competitive and supply products at affordable prices. On the other hand, while farm-produced milk may be the industry's raw material, it is not the only factor in the ultimate product cost. As evidence presented at and considered from the June 1, 2006 public hearing, processed product (cheese and whey powder, NFDM powder, and butter) cost is based upon numerous factors. Other costs incorporated in final product prices are labor and fuel for production, processing, and transportation. Evidence presented by both producers and processors indicates that the cost of doing business is higher in California than many competing dairy regions. According to the testimony, in addition to labor and fuel, this State's producers and processors incur higher costs for capital, land, construction, and complex environmental and building permit processes.

Several factors require California's raw milk prices for manufactured products to be lower than other regions' and states' in order to be competitive. Markets for significant amounts of California dairy products are distant in the eastern half of the U.S. Processors in federal jurisdictions have another competitive advantage because they may partially opt out of their system and not be subjected to minimum prices for milk used in manufactured dairy products. Thirdly, California processors face the higher costs cited above. In general, the regulated minimum prices currently paid by California processors to California producers is 40 cents per hundredweight lower than the prices in areas covered by the federal milk marketing regulatory system.

The Department and its experts use available facts and data to arrive at their projections. The multiplicity of factors and their variable magnitudes, which encompass national market prices, intra-state costs of processing, and individual financial circumstances, plans and goals, makes

reliable prediction of specific or individual actions impossible. A particular dairy farmer or processor will incorporate any market or pricing changes to maximize their individual benefit. Since neither the Department nor its experts or anyone else can read minds, or dictate future actions, projections and predictions of the future are speculative.

## 2. IN-STATE FACTORS IMPACT THE STATE'S DAIRY PRODUCERS AND PROCESSORS

The Department has authority to establish pricing formulae and determine the minimum required prices resulting from the formulae. Those statutes mandate that the Department regulate the State's milk market by regulating minimum prices and administering a revenue pool. This means that the Department must consider average efficient processing costs and the aggregate impacts upon revenue to producers; this regulatory structure does not impose any particular results. The statutes do not require or in any way authorize the Department to regulate the operations of individual producers or processors. In other words, other than requiring payment of a certain minimum price, the Department cannot regulate how processors or producers actually conduct their business.

The Department has utilized the statutory criteria for establishing prices and proposed to implement its economists' projections; the proposal will adjust the pricing formulae to encourage the State's dairy market to balance supply with demand. In so doing, the Department has received a petition and alternative proposals from the State's dairy industry which encompass 72 variations, analyzed the economic effects of those proposals, conducted a hearing, received testimony, and prepared a panel report leading to the proposal under consideration. This proposal has evaluated current industry conditions, projected future conditions, including growth in milk production and lack of growth in milk processing facilities, and proposed changes in the pricing formulae which are intended to signal the industry to decrease production or increase processing capacity. The signals will be sent via a reduction in the regulated minimum prices that processors must pay producers. This price reduction could, but is not required to, provide processors with additional funds to expand their processing operations in this State.

The Dairy Institute of California ("Dairy Institute" or "Institute"), an association of dairy processors, initially petitioned the Department for changes in the pricing formulae which would have increased the make allowance for cheese and skim whey powder, which would have decreased the minimum prices processors must pay producers for milk utilized in cheese production. The Institute's petition also sought a slight decrease in the minimum price paid through the Class 4a formula (milk utilized for non-fat dry milk powder and butter). Within their petition and testimony, the Institute argued that the increase in the cheese make allowance was necessary to encourage construction of additional facilities to process milk into cheese in this State. Their argument was that there is not sufficient capacity in California to process all of the milk produced here. Other cheese processors supported the Institute's proposal and argument. If

the skim whey powder make allowance had been removed from the 4b formula, proposed by the Dairy Institute, there would likely have been 28 cents per cwt. (\$114 million annually) transferred from producers to processors, rather than the \$80 million transfer contained in the proposed activity.

However, there is no regulation or requirement that any processor actually utilize any part of that additional 28 cents per cwt. to increase capacity or to do anything else. Therefore, although the change in the price may have resulted in construction of new cheese processing plants, it could also have merely resulted in profits to processors, or had any other effect based upon the particular processor's plans, goals, debts, or other considerations.

Neither is there any requirement regarding producers' reaction to any price change. A decrease in prices may encourage some producers to increase production because they can sell more milk to processors. It may encourage others to increase production in order to maintain income or mitigate fixed costs. On the other hand, if the decrease takes prices received by producers below their cost of production, the decrease will encourage and potentially force producers out of business.

Price increases may encourage dairy producers to produce more milk. While additional milk production might encourage additional milk processing, if the price increase makes milk too expensive or uneconomical for purchase by processors, processors will not purchase the milk or increase capacity to process the milk. In the event of either a milk price decrease or increase, the resulting effects will be the result of the individual producer's or processor's circumstances.

Evidence produced in the hearing process supports the foregoing analysis. The Dairy Institute and other milk processors sought to decrease farm prices to encourage them to increase processing capacity. However, some dairy producers testified that prices were already below their cost of production, and the proposed reduction would force them out of business. One dairy farmer organization has estimated that the current average prices received by dairy farmers are \$2.79 per hundred pounds of milk below the cost of production. While it may be reasonable to project that a change will have some effect, it is not possible to foresee exactly what effects will occur, where they will occur, or the magnitude of the effects.

In the 1970s and early 1980s, policy decisions were made to encourage manufacturing of dairy products in California. At that time, an increase in the make allowance was one factor adopted to further that goal. Among the reasons for increasing the make allowance, and consequently decreasing raw milk prices to processors, was an over-abundance of milk produced in the State. At that time, milk production had been increasing and producers were increasingly required to sell their milk to out-of-state processors. In order to encourage increased processing capacity and also to help offset increasing production costs, make allowances for butter and NFDM powder were increased on seven different occasions by the Department from 1977 to 1983.

As is apparent from history, milk production increased despite the unavailability of local processors. Among the reasons for production increases at that time were this State's overall favorable conditions for milk production, land was available and inexpensive, feed was close and

affordable, and population was increasing which increased the opportunity to sell milk at high prices to milk bottlers. Today, land has become more expensive, regulation has increased the cost of construction, operation and expansion of dairy farms, and urbanization has isolated producers from feed and markets. In addition, milk produced outside of this State (and therefore not subject to the same minimum pricing rules) is increasingly taking the high-value bottled milk market; out-of-state milk has now taken about 15% of that market. Therefore, there can be no certainty whether a 19.7 cent per cwt. decrease in producer revenue (1.8% of total revenue) will increase, or have any impact upon, processing capacity or production. The potential effects are further complicated since the Department did not grant the 28-cent change that would have resulted from removing the skim whey factor. This is an industry where parties often compete by fractions of a cent. Although the Department and its economists are charged with anticipating future reactions to policy changes, they can also make changes and adjustments if circumstances change or their projections do not accurately reflect the industry's response. Moreover, the prior discussion illustrates why the multitude of changes in circumstances militate against considering particular prior actions and results as indicative of the future.

## THE TESTIMONY AND FACTUAL DISCUSSION

Because of the long-term increase in milk production, and the need for processing facilities in this State to accommodate the increase in production, the Department has proposed a composite price decrease from make allowance and f.o.b. factors of 19.7 cents per cwt. This will, in turn, result in a reduction to producers of approximately \$6.7 million per month, or \$80 million per year, of the \$370 million per month or \$4.43 billion per year paid by the State's processors to the State's producers. Utilizing the Department's estimated average prices in California, the reduction would be a 1.8 percent reduction in gross producer revenue. The aforementioned economic effects are based upon current and projected market conditions. However, fluctuations in those conditions, including constantly changing national prices and amounts of production add an unknowable degree of uncertainty to all of these projections.

The evidence generated by the proposed pricing changes supports the variability in the market and the effects of various factors upon producers and processors. As noted above, Western United Dairymen, a producer organization, has recently estimated that the average prices received by milk producers are \$2.79 per hundred pounds below the cost of production. During the hearing, there was testimony from other producers and their representatives that existing prices are too low, and when combined with the Dairy Institute's proposed decrease milk production would become less profitable or uneconomical. One producer testified he was going out of business because of current low prices, even without the proposed price reduction. The representative from the California Dairywomen's Association said that a 51-cent per hundredweight drop in prices, as proposed by the Dairy Institute, would be "devastating" to dairy farmers and related businesses.

Testimony and evidence received by the Department or presented by dairy processors indicate that there is currently an abundance of milk being produced in California, and the abundance is significant enough to constitute oversupply.

Processors' testimony and actions also indicate that any ultimate physical effects of the proposed

price change are indeterminate. As discussed above, there are many factors which impact decisions in the dairy industry. Since processors are seeking still lower prices, although they currently pay, on average, 40 cents per cwt. less for milk produced in California as compared to federal minimum prices, the price of raw milk is only one factor in processors' decisions.

The representative from Kraft Foods (Kraft is a cheese processor) exemplifies the complexities in making, much less predicting, a processor's decisions.

*"Over the last several decades Kraft has shifted its purchases of cheese to the West, specifically California and Idaho, given its advantage in scale and cost. However, over the last one to two years we have shifted purchases away from California. In 2006 we will buy nearly 25 percent less cheddar cheese from California than we did last year. This cheese is now being purchased from Idaho and New Mexico, as it is more competitive than California cheese."*

*"Kraft operates four large processed cheese plants in Minnesota, Missouri, Illinois, and Pennsylvania, and partners with co-manufacturers with cut & wrap operations in Wisconsin, Ohio, and Mississippi. We evaluate suppliers across the country that can deliver products that meet our specifications and do so at a competitive price. As a supplier to these facilities, cheese plants in the West require a cost structure that enables them to manufacture cheese, ship it several thousand miles, and be priced competitively with locally producing cheese."*

*"Therefore, it is critical (to) have minimum regulated milk prices that allow for California plants to be competitive with plants in other parts of the country."*

This testimony suggests the multitude of factors which Kraft considers in its decision-making and evidences the uncertainty of any predictions made about Kraft's future actions or their reactions to the proposed pricing changes.

Testimony from a representative from another cheese processor, Blue Ribbon Cheese Company, is consistent and therefore amplifies Kraft's testimony and further evidences the multitude of factors in processors' decisions regarding operation of their plants. Craig Rasmussen, Blue Ribbon's Vice President of Operations, testified that:

*"...years of planning this project and exhaustive due diligence, it is clear that the cost of processing milk into cheese continues to rise. Moreover, the wild fluctuations in the whey markets cut directly against some of the arguments you will hear today to the value of whey products."*

*"The facts are that rising energy, labor, workmen's compensation, and transportation costs are very real and are major obstacles to growth of the California cheese industry. In fact, our company has been forced to consider alternative states for this project as a result."*

The project to which Mr. Rasmussen was referring is a cheese manufacturing plant that Blue Ribbon has proposed to construct and operate in California. This proposal might suggest that there will at least be foreseeable environmental impacts resulting from the Department's proposed pricing changes. However, Mr. Rasmussen's testimony was in support of the Dairy Institute's proposal which the Department has not proposed to adopt, and as is indicated in the testimony, Blue Ribbon was planning this project well before this price change was proposed. Blue Ribbon has not committed to this project; regardless of the proposal, their plant might or might not be constructed. Consequently, rather than making environmental impacts more reasonably foreseeable, the testimony illustrates the uncertainty inherent in any projections of the future.

Furthermore, in addition to testimony and the Department projection that processing plants should be added in the future, evidence indicates that expansion of milk processing is currently occurring under the current pricing formulas. One dairy producer testified that they were aware of expansions currently under way at two other processing facilities.

The largest example of current expansion is a processing facility under construction by California Dairies, Inc., ("CDI") which is a cooperative of California dairy farmers. That plant will have the capacity to process five million gallons of milk per day; it will cost \$125 million. According to their testimony, this new plant would not be profitable even at the proposed pricing. As a cooperative of milk producers, CDI will operate this plant in order to ensure that its members' milk will be processed and generate some revenue. Similarly, CDI already operates five other processing plants. The construction and operation of this new plant by dairy farmers exemplifies the complexity and variable factors which are considered by dairy producers and processors in siting, operating, and expanding their operations and further evidences the uncertainty of any projections.

The CDI example leads to another consideration and complexity; many milk producers are also dairy processors. According to their testimony, CDI is owned by approximately 700 dairy farmer members in California who collectively produce over 17 billion pounds, or 42%, of the milk produced each year. Land O' Lakes is an interstate cooperative of dairy farmers which also operates processing facilities throughout the nation. The Hilmar Cheese Company is owned by California dairy farmers and operates the largest cheese processing facility in the world in Hilmar, California. Dairy Farmers of America, the nation's largest dairy farmer cooperative, has entered into business arrangements to operate processing facilities in many states.

The actions of Hilmar Cheese Company also illustrate the complexities in the state and interstate dairy markets. Hilmar is a proprietary cheese processor owned by a consortium of California dairy farmers. As dairy farmers, Hilmar's owners have a clear, vested interest in ensuring that their own production will be utilized. However, when Hilmar elected to expand their operations, they chose to add new processing capacity in rural, north Texas. Only the future can tell us whether Hilmar's move was a harbinger of things to come, but evidence was presented to suggest that conclusion.

Furthermore, approximately 80 percent of California milk is marketed through dairy-farmer owned cooperatives. Many cooperatives operate processing plants which utilize their own members' and non-members' milk. Because of their membership in these cooperatives, dairy farmers might see the revenue from the sale of their raw milk decline as a result of reductions in the minimum prices (increases in the make allowance) but, at the same time, see that decline offset by increases in the revenue received from the sale of the finished product. Consequently, for many, if not most California dairy farmers, this proposed change may have no ultimate economic impact; they will receive the same amount of revenue, but it will come from their ownership in processing operations instead of their dairy farming operations.

History has demonstrated that milk processing followed milk production; this has been the case in California, and it is the assumption adopted by the Department as a basis for the proposal considered herein. On the other hand, the proposal is less a signal to increase processing capacity than it is a signal that supply and demand are out of balance. The increase in the make allowance and corresponding decrease in milk prices will send two signals; it will signal producers to reduce production but also signal processors to increase demand. It can be expected that as the markets change to reflect the new circumstances, producers, processors, and the Department as a regulating agency will make additional adjustments.

In 1994, California surpassed Wisconsin to become the largest milk-producing state. However, the most recent years have shown huge growth of milk production in Idaho, Texas, and New Mexico. California dairy markets will be affected by that growth and the degree to which that out-of-state growth is the result of producers' relocation from California. Hearing testimony from a dairy industry accountant explained the lower costs of production and more favorable conditions for dairy farmers in other states.

Mr. Albert Nunes testified that he is a CPA and partner in an accounting firm that provides accounting services for dairies that produced 20% of the milk in California and has clients in "about 27 or 28 other states." Mr. Nunes testified that the profitability of milk production and the attractiveness of California to milk producers is declining relative to other states. Among the reasons stated are:

*"...land in California is at least 2 to 4 times cheaper almost anywhere else you want to go. I mean, you can go to the midwest, you can go to Kansas, \$1,200 to \$1,500 an acre, Texas close to the same, Colorado. And all those places have much cheaper feed costs than we have here. So we're seeing -- I'm seeing myself more and more people want to leave our state because it's very hard to dairy in this state. It's very hard to expand because of the land prices. It's also very hard to expand because we have very strict environmental standards that are hard to meet. They're hard to meet and also very expensive. They're not even having to pay these costs but, you know, down the road these costs are going to hit. They're going to have to do, be it lagoon, be it air, whatever you have to do, that's going to cost money, which is reflected nowhere in my numbers, because that cost that's eventually going to hit the dairies aren't even in my numbers yet, because they're not doing it yet."*

As milk production increases in other states, so will the opportunity for processing. California producers and processors will be competing with those states for customers and market share.

Mr. Nunes' testimony also highlighted the potential for California producers to respond to decreasing prices. He testified that some producers might expand; this would increase their economies of scale, lessening marginal costs of production and making production profitable or more profitable. Some farmers may be compelled to borrow money to ride out the low price period, but this will depend upon the availability of money and the individual farmer's ability to borrow. If a farmer cannot meet costs, does not have the savings to incur the losses, or cannot afford to take on debt, dairy farming becomes uneconomical for that farmer. As farmers leave the industry, less milk is available for processors. This further illustrates that individual circumstances drive changes in production and ipso facto drive changes in processing.

The Department's Panel Report explains the interdependence of producers and processors and why a healthy industry requires both to stay economically healthy.

*“Despite the vigorous debate over California’s future dairy pricing policy – both dairy producers and commodity processors (i.e. for Cheddar cheese, butter and NFDM) face remarkably similar economic conditions. Both are price takers, neither having the market power to control the prices they receive. Both are affected by the national commodity market. The long term economic success of both groups is intertwined. The two different perspectives are really partners. The long term viability of each partner is dependent upon the success of the other partner. The importance of this interdependency is made all the more critical because over 77% of California’s pooled production is comprised of Class 4a and 4b products. Obviously, if one group falters, the economic interests of the other will be adversely impacted.”*

Having acknowledged the interdependence, the Panel Report recognized the different perspectives of producers and processors.

*“California processors testified that the current manufacturing cost allowance (MCA) no longer covers the cost of processing and must be adjusted to provide greater operating margins. Citing the updated annual manufacturing cost of processing data, processors put forth a proposal that they believe would make California products more competitive in the national marketplace.*

*“Dairy producer representatives testified that the proposed increases in the MCA would come at the expense of producers at a time when producers are having difficulty coping with higher production costs and lower prices.*

*“Processors responded by testifying that high regulated prices will not result in long-term revenue gain for producers if the price paid to achieve these gains is uncompetitive and nonviable to the dairy processing sector.”*

Having acknowledged the long-term interconnection between producers and processors, the Panel Report declared that it is not the long term, but the short term that is at issue and drives the Department's proposal.

“Despite the long term interdependency, the short term viewpoints of both interests are what is at issue. Consequently, the Panel carefully evaluated the debate over the make allowance and the appropriate level of Class 4a and 4b prices, while giving thoughtful consideration to the two distinct perspectives.”

Whether and to the extent that the proposal conforms to the requirements, expectations, and “short-term viewpoints of both interests” will be determined by future actions. The pricing proposal is intended to send a signal, but producers' and processors' reactions to the signal are under their own control, not the Department's. Although there may be some certainty to predictions about aggregate effects in the industry, since individuals will react individually, whether, to what degree, and where production or processing increases or decreases as a result of the proposal cannot be certain.

In addition to purely economic conditions, milk production and processing is impacted by real world events. The recent July heat wave in California had two effects; it drove down production and therefore the amount of milk sold by the State's dairy producers, and it encouraged price increases as the futures market projected reductions in supply. While the impacts may be offsetting to the state or national industry, individuals will experience individual effects that could be devastating. As a result of the reduction in production caused by heat-stressed cows, one dairy farmer organization projected a billion-dollar loss to California dairy producers. Because of those losses, that organization has also sought a declaration of an emergency and emergency assistance from the federal government. The Governor recently forwarded that request to the federal government. As the heat wave moves across the country, there may be additional reductions to production. In addition to the revenue lost by producers because of lower sales, lower production means less supply of raw material to processors. While the reduction in supply may drive up prices in the short run, the higher prices will also encourage increased production. But the long-term changes, such as whether herds will be increased or processing capacity will be added, and where the changes will occur, is less certain. Heat can also drive up ice cream sales. Therefore, weather cannot be overlooked as a factor impacting the industry.

The dairy industry experienced a different type of external impact in 2005 when supplies of a growth hormone which increases a cow's milk production were reduced by half. This caused another drop in production per cow requiring a response by farmers; some certainly increased their herds, while others probably sought other alternatives.

The overall state of the general economy is another factor. Sales of cheese to the restaurant industry have also been increasing relative to individual consumers. For example, Cheddar cheese has been the benchmark for measuring the cheese market, but the market for mozzarella has grown to a 30-percent share of the cheese market. If the nation's economy falters, people

probably eat out less and probably purchase fewer pizzas, which impacts the cheese and mozzarella markets.

Fuel costs are significant to both producers and processors. Increasing costs of fuel can increase costs to transport raw milk to the processor and then transport the finished products to the consumer. At some point, economic principles mean that higher consumer prices will result in lower sales.

In the past, milk and dairy products were marketed locally; today the market is broad and interstate. In recognition of this fact, the California regulatory system is based upon the national prices reflected in the Chicago Mercantile Exchange (“CME”). The formulas adopted for pricing milk in California are based upon the value of milk produced in this State if sold on the CME. Consequently, the regulated minimum milk prices that California processors are required to pay California milk producers is the CME price adjusted (reduced) for the cost to convert milk to manufactured products (the make allowance) and adjusted (reduced) for the assumed cost of moving the milk from California to Chicago (the national market reflected on the CME). By basing prices on the national market, this State’s formulas reflect the aggregated business decisions made by producers and processors throughout the country; this adds variables and degrees of magnitude to any projections of future actions.

Furthering the uncertainty of the markets is the slowing growth in the cheese market. Although growth in cheese demand is occurring, the rate of the growth has slowed. If at some point the market becomes saturated, cheese prices should decline, and processors will have less incentive to add processing capacity. Dairy producers, and the processors upon whom the producers depend to purchase their milk, will factor this uncertainty into decisions regarding whether or not they want to increase their operations.

As markets change, the participants may change. As described above, California’s milk processors are often multi-state and multi-product manufacturing organizations. Continuing with the cheese make allowance from above, it might provide processors with the revenue to increase their capacity to process California milk, but it could also fund any other project either within the State’s dairy industry or wholly outside the State and its dairy industry. The Department’s proposal is simply not necessarily a step toward any direct or indirect change in the environment.

The foregoing analysis demonstrates that any projections that milk production or processing will increase, decrease, relocate, expand or not as a result of the proposed changes to the milk price formulas is speculative. Regulated minimum prices are but one factor in the industry’s business decisions. At this time, there is no way to predict which, if any, economic effects will result from the proposal; therefore, there is no reasonable way to ascertain whether, what, where, and what type of physical projects might occur or the potential impacts to the environment, potential alternatives, or potential mitigation.

Regulated pricing is based only upon economic criteria and pricing can only increase, decrease, or remain status quo. The only alternatives and mitigation within the Department’s authority would be to make a different change in prices; however, since there is no certainty as to the

results of price increases and decreases, it would not be reasonable to foresee what, if any, physical impacts might result from the proposal, the alternatives, or the mitigation. An attempt at environmental evaluation would be futile at this time. However, if and when any producer or processor proposes any actual physical activity, such as construction or expansion of their operations, their project will at that time be subjected to full environmental review by the various permitting agencies with jurisdiction.

## ENVIRONMENTAL ANALYSIS

### ENVIRONMENTAL BASELINE

#### Activity/Project Site

The proposed activity will affect all milk sold by dairy producers located in California to all processors of cheese (and whey products), butter, and powder located in California. Plants that manufacture NFDm powder also manufacture butter. The proposed activity also directly ties to processors that manufacture Class 2 and 3 products, as these formulas have a direct link to the Class 4a formula.

Currently, milk production is concentrated in four geographic areas of the State:

Southern California

South Valley (Southern San Joaquin Valley)

North Valley (Northern San Joaquin and Sacramento Valleys)

North Coast

#### Existing Conditions

California currently produces more milk than any other state in the nation and processes more cheese than any other state except Wisconsin. This State's dairy farmers are located throughout the State; however, there are large concentrations in the Chino Valley area of Southern California, the lower San Joaquin Valley, and the Northern San Joaquin Valley. For the purpose of this analysis, the lower San Joaquin Valley region includes the counties of Kern, Kings, Tulare, and Fresno. Madera, Merced, Stanislaus, and San Joaquin Counties comprise the Northern San Joaquin Valley. The Chino Valley describes the areas of Riverside and San Bernardino Counties near the cities of Chino and Corona. Milk is also produced in lighter volumes in the other counties of the North Valley and the North Coast Region.

At one time, it was projected that the largest concentration of dairy cows in the world, approximately 300,000 head, was in the Chino Valley; however, undoubtedly as the result of many factors, the number of dairy farms in the Chino Valley has been declining over the last few years. At present, the number of dairy farms in the Chino Valley is approximately 140, which is a significant decline over the past ten years from approximately 275 dairies in the Chino Valley.

Coupled with the decrease in dairies has been a decrease in dairy cows. Among the reasonably accepted reasons for the decrease in dairies in this region is urban encroachment and the incompatibility of dairy farming with urban and suburban uses, increased costs to maintain production in such close proximity to urbanization, which includes increased distances to bring feed and increased distances to dispose of waste. Increasing real property values further encourages the reduction of dairying in the area. The full impact of this exodus from the Chino region has not yet been fully manifested in the State's dairy economy or environment.

The dairies displaced from the Chino area have generally either eliminated operations altogether or moved to different areas. The largest receiving areas for dairies that have relocated are the lower San Joaquin Valley and the North Valley. However, other states including Arizona, Nevada, New Mexico, Idaho, Texas, and Midwest states have seen substantial increases in

dairying, some of which has undoubtedly been driven by displaced Chino and other California dairy producers.

As dairies have sought to locate or relocate into the Central Valley, including the San Joaquin and Sacramento Valleys, the counties have increased their regulation of dairies. Merced and Kern Counties have both undertaken CEQA review to support new requirements for land use permits before dairies may be constructed, improved, or expanded. Similar initiatives have occurred throughout the region. In addition, as a result of legislative mandates and local concern, the state and regional air quality and water quality control agencies have accelerated specific environmental review and regulation over dairy farms in the State. These increases in land use and air and water regulations have required dairy farmers to undertake additional measures to obtain permits and protect the environment, including compliance with CEQA. As a consequence, dairy farms once projected to be operating in these regions by now have not yet been constructed or begun operation. The long-term impact of the new regulatory requirements and resulting expenses will certainly affect actual growth of dairying and may require project revisions.

Over the past 25 years, the production of cheese in this State has grown along with the production of milk. Today, the largest cheese production facility in the world is located in Hilmar, California in Merced County. The San Joaquin Valley also is home to other large cheese-processing facilities, including plants in Visalia, Lemoore, and Tulare.

While there are many factors which impact the construction and operation of cheese plants, chief among them has been the availability of and proximity to their raw material, which is milk. Other factors can also affect where cheese-processing facilities will be built or expanded – such as the proximity to their consumers, their cost of production, including raw material/milk costs, and costs of operations, including fuel, waste disposal, and regulatory compliance. Cheese plants can be operated by proprietary concerns such as Hilmar, Leprino or Kraft, but other cheese and other milk processing facilities are operated by dairy farmer cooperatives seeking to generate greater profits from their milk production. Examples of cooperative processing facilities are plants operated by Land O’ Lakes, Dairy Farmers of America, and several existing plants and a new plant under construction operated by California Dairies Incorporated. As explained above, the cost of the raw milk is just one factor in selecting a location for a cheese or other milk processing facility. Furthermore, the “make allowance” is only one factor in the overall cost of the milk and an even smaller factor in the cost of production.

Given the relationship between availability of milk as the essential raw material of cheese and other dairy products, it is assumed that processors will operate wherever milk is available. As a result of the past increases in milk production and a lack of evidence to the contrary, it has been projected that milk production will continue to increase in this State. If the milk production increase continues at the current rate, as has been projected, dairy processors have predicted that three to four new processing plants will be required in California in order to utilize all of the milk to be produced in this State within the next few years.

## REASONABLY FORSEEABLY POTENTIAL ENVIRONMENTAL EFFECTS

As explained herein, the Department's proposed action would adjust milk-pricing formulae; nothing in the proposal commits or compels action or physical change in the environment. Therefore, the analysis is: will a composite increase of the make allowance and other factors resulting in an aggregate reduction in revenue to the State's dairy producers of 19.7 cents per cwt. will result in any reasonably foreseeable environmental impacts?

The simplest expectations are for revenue to dairy processors to increase because the cost of the milk they purchase from California farmers would decrease. In turn, revenue received by dairy producers would decrease by the same amount. More specifically, the proposed increase in the make allowances will have two direct economic impacts; cheese and skim whey powder, and NFDM powder processors will not be required to pay as much to dairy producers for milk, and the amount of money that will go into the milk revenue pool to be split among the State's dairy producers will be reduced. But the impact of the reduced pool revenue will vary among producers depending upon their amount of quota, their farm's efficiency, and the volume of milk they produce. As discussed above, many factors contribute to the construction, expansion, and continued operation of dairy farms and milk processing facilities. It will be the weight afforded those factors which will determine what, if any, ultimate effects will result from the proposal.

The Department's panel report recognizes the foundational relationship between the economic health of dairy farmers and dairy processors. Dairy processors do appreciate reduced raw material/milk costs, but they also require sufficient quantities of milk to operate a facility profitably. Dairy producers need processors to purchase their milk; if the price of their milk is too high, processors will not purchase it. On the other hand, if the price received by dairy producers is too low, the producer cannot meet their cost of production and will eventually stop producing. The minimum prices processors must pay to producers is regulated by the CDFA. The difference between the imputed value of manufacturing milk (based on the CME) and minimum farm prices required by the Department equal the make allowance and f.o.b. factors. If the minimum regulated milk price is not in balance, then the regulated price will send economic signals which could result in decreases of production of both milk and milk products, as milk is not produced either for lack of producers or lack of processors. Consequently, if the make allowance is set too high or too low, it can result in a decrease in production and processing. The Department's proposal reflects the circular nature of the industry, and the Department's history reflects the need to constantly adjust markets to changing industry conditions.

Setting the regulated minimum milk prices requires the Department's economists to anticipate future actions by dairy producers and processors. While the Department's economists are recognized experts, they and the Department can and do adjust their analyses and regulated prices to reflect changes in market conditions. This is because, regardless of the degree of expertise, projecting the actions of others requires, and can be nothing more than, speculation. In fact, over the last five-and-a-half years, there have been 30 petitions to change the various formulae, 16 hearings conducted, and 9 changes.

Like the Department's experts, dairy farmers and processors must make projections regarding availability of markets, raw material costs, farmers' feed costs, fuel, transportation, and all other variables which can impact their ability to remain in business. Therefore, increases and decreases in milk production and processing are a function of producers' and processors' projections, their degree of confidence in those projections, their ability to afford risk, and their goals and plans.

The Department has proposed to increase the make allowance and other factors resulting in a producer revenue pool reduction of 19.7 cents per cwt. This will result in an aggregate transfer of an estimated \$80 million dollars annually from producers to processors. The actual ultimate effect (increase in dollars) upon any particular processor will be a function of their overall use, capacity, and efficiency. Similarly, the actual and specific ultimate effect upon any particular producer (decrease in dollars) will primarily be a function of the producer's amount of production.

Consequently, whether an increase or a change in the make allowances (which amount to approximately 1.8% of the gross pool revenue to dairy farmers and milk processors) will result in increases or decreases in milk production, processing, and environmental impacts resulting from this decision can be no more than pure speculation.

The proposed milk pricing changes are not a necessary first step, or even necessarily a step, in increased milk production or processing.

ANY PHYSICAL CHANGES IN DAIRY FARMING OR PROCESSING WILL BE  
SUBJECTED TO CEQA AND OTHER ENVIRONMENTAL REVIEW BY AGENCIES WITH  
THE APPLICABLE JURISDICTION. CDFA'S AUTHORITY TO REGULATE MILK  
PRICING IS LIMITED TO ECONOMIC CONSIDERATIONS.

The multitude of environmental and land use regulatory requirements provide the necessary steps to construction, expansion, and siting of dairy farms and processing facilities. While the Department's regulation of milk marketing might impact individual decisions regarding the various dairy operations, the Department's regulation is not a step, necessary or otherwise in actual physical operation of those facilities. The regulation of milk marketing by the Department is one factor in the equation of whether and how individuals operate; at most, the proposal will impact producers' and processors' revenue which might provide or deprive them of the funds necessary to operate.

The environmental review required by the local and state land use and environmental protection agencies ensures that dairy farms and processing facilities will undergo all of the rigorous environmental review and meet all of the environmental requirements applicable to the areas of this State. Any proposed changes in the production and processing operations will be subjected to review to ascertain whether there will be environment impacts, and the proponents will be required to obtain applicable building, water, and air permits, which may require CEQA review, including preparation or conformance with an environmental impact report. The activity, and

marginal changes in the economic variables, proposed and reviewed herein, will not create, magnify, or aggravate any gaps in the environmental review and compliance.

The minimum milk prices and the formulae for setting them are a function of the Department's responsibility to regulate the marketing of milk in this State. The above-referenced statutes mandate that the Department set the formulae and prices according to certain, specified economic criteria. The processes of this economic regulation are conducted by the Department's Marketing Services Division and the Dairy Marketing Branch located therein. Neither the Marketing Services Division nor the Dairy Marketing Branch has any authority to license or authorize the siting, construction, expansion, or physical operation of either dairy farms or dairy processing facilities. The Department's Milk and Dairy Foods Safety Branch, which is within a wholly separate Animal Health and Food Safety Division in the Department, does license and regulate the operation of dairies and dairy processing facilities, but only for sanitary purposes.

CDFA has no authority to consider environmental impacts in its market regulation. The statutes allow the Department to consider "any relevant economic factor" which might include the cost of environmental compliance. However, the codified pricing criteria which controls and limits the Department's regulatory authority does not include consideration of physical impacts. No division, nor the Department itself, has authority to issue or deny a permit or other entitlement, based upon environmental impacts to a dairy farm or processing facility. The siting and environmental permitting of those facilities are within the authority and purview of local governments and the state environmental protection agencies, such as the state and regional air and water quality control boards.

Neither does CEQA require or enable CDFA to consider environmental effects of milk pricing decisions. As is explained herein, the Department authority is limited to consideration of economic effects. CEQA does not require analysis of social or economic effects. Social and economic effects are only relevant to CEQA review if they cause or contribute to physical changes to the environment and to measure whether a physical effect is significant. (CEQA Guidelines Section 15131(a)) Furthermore, the CEQA Guidelines Section 15040(b), (d) and (e) explicitly declare that:

- “(b) CEQA does not grant an agency new powers independent of the powers granted to the agency by other laws;”
- and
- “(d) The exercise of [an agency's] discretionary powers may take forms that had not been expected before the enactment of CEQA, but the exercise must be within the scope of the power;”
- and
- “(e) The exercise of discretionary powers for environmental protection shall be consistent with express or implied limitations provided by other laws.”

Therefore, any environmental effects resulting from increased milk production or processing which might occur subsequent to adoption of the proposed changes to the pricing formulae will

be subjected to CEQA and other applicable environmental review by the appropriate lead agencies which have principal responsibility for approving the particular proposed project. (See CEQA Guidelines Section 15367.)

CDFA has no authority to consider the environmental effects of its pricing decisions. Independent of any other considerations, these reasons indicate why an Environmental Impact Report is not required or appropriate at this time.

Regardless of economic projections and the Department's pricing proposal, there are fundamental differences in the relevant economic and environmental analyses. The economic projections are necessary to evaluate economic conditions and send economic signals; but CEQA requires agencies to evaluate the reasonably foreseeable environmental impacts of actions. Consequently, the Department's economic assumptions and the proposal must anticipate and speculate upon future actions and therefore do not constitute substantial evidence pursuant to CEQA and do not support further environmental review. It simply is not reasonable to foresee whether and what physical effects will result from adoption of the proposal.

The Center on Race, Poverty and the Environment ("CRPE") submitted a letter comment to the Department advocating that the make allowance not be increased (and consequently prices reduced) because the action would result in additional dairy processing and dairy production from which significant environmental impacts will result, including additional waste and water degradation. However, the CRPE letter included no data or analysis; it was argument and a bare conclusion. Consequently, the CRPE letter itself does not constitute substantial evidence for CEQA purposes.

Furthermore, even if the CRPE hypothesis were to be accepted, it still would not trigger an environmental impact report because no particular physical project has been proposed or projected to result from the Department's proposal. The lack of any particular proposal precludes the "accurate, stable and finite" project description necessary to conduct meaningful environmental review. While environmental review is to be conducted as early as feasible in the planning process, it must also be late enough to satisfy the equally compelling practical demand that the decision-making process underlying a given "project" be sufficiently developed to provide meaningful information for technical review.

For all of the reasons discussed herein, an environmental impact report is not required because there is no substantial evidence to reasonably foresee any environmental effects of the proposed activity, the Department has no authority to take the actions required by an EIR, and it would not be feasible to conduct meaningful environmental review at this time.

## **CONCLUSION**

There is no substantial evidence to support a fair argument that the proposed increase in the make allowances, and resulting decrease in producer prices and revenue, will cause any increase in the milk production, number of dairy cows, or the amount of their waste. Neither is there any substantial evidence in the record supporting a fair argument that the proposal will increase milk

processing or the amount of waste. Their letter testimony from CRPE constituted argument and speculation, which does not constitute substantial evidence pursuant to CEQA (see Public Resources Code Section 21082.2(c) and CEQA Guidelines Section 15384).

An Initial Study pursuant to the California Environmental Quality Act requires consideration of reasonably foreseeable environmental impacts, and the courts have held:

**"...no purpose can be served by requiring an EIR to engage in sheer speculation as to future environmental consequences..."**

At this time, it is pure speculation whether and what, if any, direct or indirect environmental effects will reasonably, foreseeably result from the proposed adjustment in the milk pricing formulae.

The Department has conducted the required study in this document and has determined that an environmental impact report is not required, warranted, or appropriate at this time. There is no substantial evidence in the record to support a fair argument that the proposed activity, which is to increase the make allowances for cheese, skim whey powder, and NFDM powder, will result in any adverse physical impacts to the environment.

#### ENVIRONMENTAL REVIEW CHECKLIST

See attached checklist

#### Discussion:

Dairy and milk processing facilities operations and expansion can have potential environmental effects. Air and water quality concerns are documented. However, as noted in the preceding discussion and analysis, there is no substantive evidence that the proposed project will cause any change in these operations. Therefore, there are no adverse effects to the environment attributable to the proposed project.

#### PREPARERS OF THIS REPORT

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Issues:

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
I. AESTHETICS -- Would the project:				
a) Have a substantial adverse effect on a scenic vista?				X
b) Substantially damage scenic resources, including, but not limited to, trees, rock outcroppings, and historic buildings within a state scenic highway?				X
c) Substantially degrade the existing visual character or quality of the site and its surroundings?				X
d) Create a new source of substantial light or glare which would adversely affect day or nighttime views in the area?				X
II. AGRICULTURE RESOURCES: In determining whether impacts to agricultural resources are significant environmental effects, lead agencies may refer to the California Agricultural Land Evaluation and Site Assessment Model (1997) prepared by the California Dept. of Conservation as an optional model to use in assessing impacts on agriculture and farmland. Would the project:				
a) Convert Prime Farmland, Unique Farmland, or Farmland of Statewide Importance (Farmland), as shown on the maps prepared pursuant to the Farmland Mapping and Monitoring Program of the California Resources Agency, to non-agricultural use?				X
b) Conflict with existing zoning for agricultural use, or a Williamson Act contract?				X
c) Involve other changes in the existing environment which, due to their location or nature, could result in conversion of Farmland, to non-agricultural use?				X
III. AIR QUALITY -- Where available, the significance criteria established by the applicable				

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
air quality management or air pollution control district may be relied upon to make the following determinations. Would the project:				
a) Conflict with or obstruct implementation of the applicable air quality plan?				X
b) Violate any air quality standard or contribute substantially to an existing or projected air quality violation?				X
c) Result in a cumulatively considerable net increase of any criteria pollutant for which the project region is non-attainment under an applicable federal or state ambient air quality standard (including releasing emissions which exceed quantitative thresholds for ozone precursors)?				X
d) Expose sensitive receptors to substantial pollutant concentrations?				X
e) Create objectionable odors affecting a substantial number of people?				X
IV. BIOLOGICAL RESOURCES -- Would the project:				
a) Have a substantial adverse effect, either directly or through habitat modifications, on any species identified as a candidate, sensitive, or special status species in local or regional plans, policies, or regulations, or by the California Department of Fish and Game or U.S. Fish and Wildlife Service?				X
b) Have a substantial adverse effect on any riparian habitat or other sensitive natural community identified in local or regional plans, policies, regulations or by the California Department of Fish and Game or US Fish and Wildlife Service?				X
c) Have a substantial adverse effect on federally protected wetlands as defined by Section 404 of the Clean Water Act (including, but not limited to, marsh, vernal pool, coastal, etc.) through direct removal, filling, hydrological interruption, or other means?				X
d) Interfere substantially with the movement of				

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
any native resident or migratory fish or wildlife species or with established native resident or migratory wildlife corridors, or impede the use of native wildlife nursery sites?				X
e) Conflict with any local policies or ordinances protecting biological resources, such as a tree preservation policy or ordinance?				X
f) Conflict with the provisions of an adopted Habitat Conservation Plan, Natural Community Conservation Plan, or other approved local, regional, or state habitat conservation plan?				X
V. CULTURAL RESOURCES -- Would the project:				
a) Cause a substantial adverse change in the significance of a historical resource as defined in '15064.5?				X
b) Cause a substantial adverse change in the significance of an archaeological resource pursuant to '15064.5?				X
c) Directly or indirectly destroy a unique paleontological resource or site or unique geologic feature?				X
d) Disturb any human remains, including those interred outside of formal cemeteries?				X
VI. GEOLOGY AND SOILS -- Would the project:				
a) Expose people or structures to potential substantial adverse effects, including the risk of loss, injury, or death involving:				X
i) Rupture of a known earthquake fault, as delineated on the most recent Alquist-Priolo Earthquake Fault Zoning Map issued by the State Geologist for the area or based on other substantial evidence of a known fault? Refer to Division of Mines and Geology Special Publication 42.				X
ii) Strong seismic ground shaking?				X
iii) Seismic-related ground failure, including liquefaction?				X

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
iv) Landslides?				X
b) Result in substantial soil erosion or the loss of topsoil?				X
c) Be located on a geologic unit or soil that is unstable, or that would become unstable as a result of the project, and potentially result in on- or off-site landslide, lateral spreading, subsidence, liquefaction or collapse?				X
d) Be located on expansive soil, as defined in Table 18-1-B of the Uniform Building Code (1994), creating substantial risks to life or property?				X
e) Have soils incapable of adequately supporting the use of septic tanks or alternative waste water disposal systems where sewers are not available for the disposal of waste water?				X
<b>VII. HAZARDS AND HAZARDOUS MATERIALS B</b> Would the project:				
a) Create a significant hazard to the public or the environment through the routine transport, use, or disposal of hazardous materials?				X
b) Create a significant hazard to the public or the environment through reasonably foreseeable upset and accident conditions involving the release of hazardous materials into the environment?				X
c) Emit hazardous emissions or handle hazardous or acutely hazardous materials, substances, or waste within one-quarter mile of an existing or proposed school?				X
d) Be located on a site which is included on a list of hazardous materials sites compiled pursuant to Government Code Section 65962.5 and, as a result, would it create a significant hazard to the public or the environment?				X
e) For a project located within an airport land use plan or, where such a plan has not been adopted, within two miles of a public airport or public use airport, would the project result in a safety hazard for people residing or working in the project				X

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
area?				
f) For a project within the vicinity of a private airstrip, would the project result in a safety hazard for people residing or working in the project area?				X
g) Impair implementation of or physically interfere with an adopted emergency response plan or emergency evacuation plan?				X
h) Expose people or structures to a significant risk of loss, injury or death involving wildland fires, including where wildlands are adjacent to urbanized areas or where residences are intermixed with wildlands?				X
<b>VIII. HYDROLOGY AND WATER QUALITY</b>				
-- Would the project:				
a) Violate any water quality standards or waste discharge requirements?				X
b) Substantially deplete groundwater supplies or interfere substantially with groundwater recharge such that there would be a net deficit in aquifer volume or a lowering of the local groundwater table level (e.g., the production rate of pre-existing nearby wells would drop to a level which would not support existing land uses or planned uses for which permits have been granted)?				X
c) Substantially alter the existing drainage pattern of the site or area, including through the alteration of the course of a stream or river, in a manner which would result in substantial erosion or siltation on- or off-site?				X
d) Substantially alter the existing drainage pattern of the site or area, including through the alteration of the course of a stream or river, or substantially increase the rate or amount of surface runoff in a manner which would result in flooding on- or off-site?				X
e) Create or contribute runoff water which would exceed the capacity of existing or planned stormwater drainage systems or provide substantial additional sources of polluted runoff?				X

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
f) Otherwise substantially degrade water quality?				X
g) Place housing within a 100-year flood hazard area as mapped on a federal Flood Hazard Boundary or Flood Insurance Rate Map or other flood hazard delineation map?				X
h) Place within a 100-year flood hazard area structures which would impede or redirect flood flows?				X
i) Expose people or structures to a significant risk of loss, injury or death involving flooding, including flooding as a result of the failure of a levee or dam?				X
j) Inundation by seiche, tsunami, or mudflow?				X
IX. LAND USE AND PLANNING - Would the project:				
a) Physically divide an established community?				X
b) Conflict with any applicable land use plan, policy, or regulation of an agency with jurisdiction over the project (including, but not limited to the general plan, specific plan, local coastal program, or zoning ordinance) adopted for the purpose of avoiding or mitigating an environmental effect?				X
c) Conflict with any applicable habitat conservation plan or natural community conservation plan?				X
X. MINERAL RESOURCES -- Would the project:				
a) Result in the loss of availability of a known mineral resource that would be of value to the region and the residents of the state?				X
b) Result in the loss of availability of a locally-important mineral resource recovery site delineated on a local general plan, specific plan or other land use plan?				X
XI. NOISE B Would the project result in:				
a) Exposure of persons to or generation of noise				

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
levels in excess of standards established in the local general plan or noise ordinance, or applicable standards of other agencies?				X
b) Exposure of persons to or generation of excessive groundborne vibration or groundborne noise levels?				X
c) A substantial permanent increase in ambient noise levels in the project vicinity above levels existing without the project?				X
d) A substantial temporary or periodic increase in ambient noise levels in the project vicinity above levels existing without the project?				X
e) For a project located within an airport land use plan or, where such a plan has not been adopted, within two miles of a public airport or public use airport, would the project expose people residing or working in the project area to excessive noise levels?				X
f) For a project within the vicinity of a private airstrip, would the project expose people residing or working in the project area to excessive noise levels?				X
<b>XII. POPULATION AND HOUSING -- Would the project:</b>				
a) Induce substantial population growth in an area, either directly (for example, by proposing new homes and businesses) or indirectly (for example, through extension of roads or other infrastructure)?				X
b) Displace substantial numbers of existing housing, necessitating the construction of replacement housing elsewhere?				X
c) Displace substantial numbers of people, necessitating the construction of replacement housing elsewhere?				X
<b>XIII. PUBLIC SERVICES</b>				
a) Would the project result in substantial adverse physical impacts associated with the provision of new or physically altered governmental facilities, need for new or physically altered governmental facilities, the construction of which could cause				X

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
significant environmental impacts, in order to maintain acceptable service ratios, response times or other performance objectives for any of the public services:				
Fire protection?				X
Police protection?				X
Schools?				X
Parks?				X
Other public facilities?				X
XIV. RECREATION --				
a) Would the project increase the use of existing neighborhood and regional parks or other recreational facilities such that substantial physical deterioration of the facility would occur or be accelerated?				X
b) Does the project include recreational facilities or require the construction or expansion of recreational facilities which might have an adverse physical effect on the environment?				X
XV. TRANSPORTATION/TRAFFIC -- Would the project:				X
a) Cause an increase in traffic which is substantial in relation to the existing traffic load and capacity of the street system (i.e., result in a substantial increase in either the number of vehicle trips, the volume to capacity ratio on roads, or congestion at intersections)?				X
b) Exceed, either individually or cumulatively, a level of service standard established by the county congestion management agency for designated roads or highways?				X
c) Result in a change in air traffic patterns, including either an increase in traffic levels or a change in location that results in substantial safety risks?				X

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
d) Substantially increase hazards due to a design feature (e.g., sharp curves or dangerous intersections) or incompatible uses (e.g., farm equipment)?				X
e) Result in inadequate emergency access?				X
f) Result in inadequate parking capacity?				X
g) Conflict with adopted policies, plans, or programs supporting alternative transportation (e.g., bus turnouts, bicycle racks)?				X
<b>XVI. UTILITIES AND SERVICE SYSTEMS B</b>				
Would the project:				
a) Exceed wastewater treatment requirements of the applicable Regional Water Quality Control Board?				X
b) Require or result in the construction of new water or wastewater treatment facilities or expansion of existing facilities, the construction of which could cause significant environmental effects?				X
c) Require or result in the construction of new storm water drainage facilities or expansion of existing facilities, the construction of which could cause significant environmental effects?				X
d) Have sufficient water supplies available to serve the project from existing entitlements and resources, or are new or expanded entitlements needed?				X
e) Result in a determination by the wastewater treatment provider which serves or may serve the project that it has adequate capacity to serve the project=s projected demand in addition to the provider=s existing commitments?				X
f) Be served by a landfill with sufficient permitted capacity to accommodate the project=s solid waste disposal needs?				X
g) Comply with federal, state, and local statutes and regulations related to solid waste?				X
<b>XVII. MANDATORY FINDINGS OF SIGNIFICANCE --</b>				

	Potentially Significant Impact	Less Than Significant with Mitigation Incorporation	Less Than Significant Impact	No Impact
a) Does the project have the potential to degrade the quality of the environment, substantially reduce the habitat of a fish or wildlife species, cause a fish or wildlife population to drop below self-sustaining levels, threaten to eliminate a plant or animal community, reduce the number or restrict the range of a rare or endangered plant or animal or eliminate important examples of the major periods of California history or prehistory?				X
b) Does the project have impacts that are individually limited, but cumulatively considerable? ("Cumulatively considerable" means that the incremental effects of a project are considerable when viewed in connection with the effects of past projects, the effects of other current projects, and the effects of probable future projects)?				X
c) Does the project have environmental effects which will cause substantial adverse effects on human beings, either directly or indirectly?				X